ten dialed digits. Ameritech notified AT&T of this problem. Ameritech then received a request from AT&T to establish a conference call with an AT&T technical expert in New Jersey to discuss the problem. The AT&T personnel admitted that they were familiar with the problem and had encountered it before. They offered no explanation as to why they withheld this information.

111. Lost 865 Order Confirmations. AT&T notified Ameritech that it was unable to locate EDI 865 transactions (Order Completion Notification) and suggested that the system had not sent them. Upon further discussion with AT&T personnel, it was discovered that AT&T's practice was to place all 865s in a large cardboard box, and that AT&T personnel involved were not notified that the 865s associated with the test orders were to be pulled out for special treatment.

112. Invalid Testing Procedures. AT&T technicians were observed testing lines by dialing only a 01 without any subsequent digits on test calls. The digits 01 are used with international direct dial calls, and indicates to the switch that additional digits associated with the international number will be dialed. If no additional digits are dialed within a reasonable period, the switch times out and the call is sent to a recorded message. This was not one of the test calls agreed to by the trial team and the AT&T technician tried to record the call as a failed attempt. In fact the switch acted exactly the way it should have and the treatment was correct for an abandoned international direct dialed call.

### C. The MCI Trial

113. On April 24, 1997, Ameritech and MCI agreed to conduct a trial of the "platform" similar to the one being conducted with AT&T. The parties agreed to test the "platform" lines in both Illinois and Ohio, which had been ordered through Ameritech's AIIS unit using the Unbundling Questionnaire, and concurred that Ameritech would produce a Daily Usage File. On May 8, 1997 Ameritech received the completed orders for the ULS line port and unbundled loop combination. On May 9, 1997 Ameritech began to build the required LCCs, and on May 16, 1997, the lines were successfully installed. On June 12, 1997, Ameritech and MCI agreed to a list of test calls to be made from the lines. The same evening, Ameritech and MCI made the test calls on the Illinois line involved in the test. All calls were completed as expected. Subsequently, Ameritech forwarded the Daily Usage File containing the test calls data to MCI.

114. As opposed to the AT&T trial, the platform test with MCI was completed in a little over a month, and promptly demonstrated that the service can be ordered, provided, and billing data provided. This shows what can be done when both parties cooperate, rather than when one party seeks to delay the trial and have it fail to further its legal position.

115. This concludes my affidavit.

**BEFORE THE**
**ILLINOIS COMMERCE COMMISSION**

| | | |
|---|---|---|
| **Illinois Commerce Commission** | ). | |
| **On its own Motion** | ) | |
| | ) | **96-0404** |
| **Investigation concerning** | ) | |
| **Illinois Bell Telephone** | ) | |
| **Company's compliance with** | ) | |
| **Section 271(c) of the Telecom** | ) | |
| **munications Act of 1996** | ) | |

**SUPPLEMENTAL TESTIMONY OF DR. AUGUST H. ANKUM**
**ON BEHALF OF MCI TELECOMMUNICATIONS CORPORATION**

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Dr. August H. Ankum. I am an economist and consultant, specializing in telecommunications. My business address is 1350 North Wells, Suite C501, Chicago, IL 60610.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. I received a Ph.D. in Economics from the University of Texas at Austin in 1992, an M.A. in Economics from the University of Texas at Austin in 1987, and a B.A. in Economics from Quincy College, Illinois, in 1982.

My professional background includes work and consulting experiences in private industry, state regulatory agencies, and academia. As a consultant, I have worked with companies such as AT&T ,MCI, Brooks Fiber and PCS providers. Before practicing as a consultant, I worked for MCI Telecommunications Corporation ("MCI") as a senior economist. At MCI, I provided expert witness testimony and conducted economic analyses for internal purposes. Prior to joining MCI in early 1995, I worked for Teleport Communications Group, Inc. ("TCG"), as a Manager in the Regulatory and External Affairs Division. In this capacity, I testified on behalf of TCG in proceedings concerning local exchange competition issues, such as Ameritech's Customer First proceeding in Illinois. From 1986 until early 1994, I was employed as an economist by the Public Utility Commission of Texas ("PUCT") where I worked on a variety of electric power and telecommunications issues. During my last year at the PUCT I held the position of chief economist. Prior to joining the PUCT, I taught undergraduate courses in economics as an Assistant Instructor at the University of Texas from 1984 to 1986.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THIS COMMISSION OR OTHER STATE COMMISSIONS?

A. Yes, I have. A list of proceedings in which I have filed testimony is attached to this testimony.

## OVERVIEW

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my testimony is to address the rebuttal testimonies of Mr. Gebhardt and Mr. Kocher on issues pertaining to the unbundled local switching element ("ULS"). I will show the following:

-- Ameritech's rebuttal testimony includes no convincing evidence for the Hearing Examiner to alter the finding that Ameritech should offer common transport.

-- Ameritech's rebuttal testimony includes no convincing evidence for the Hearing Examiner to alter the finding that Ameritech should not be allowed to assess IXCs full switched access charges for calls terminating and originating on a ULS.

-- Ameritech's proposal to assess switched access charges allow it to *double* recover trunk port costs that are already recovered in the trunk port ULS charges.

-- Ameritech's refusal to offer common transport *lowers* the efficiency of the public switched network and denies CLECs the ability to fully utilize their trunk ports.

-- Ameritech's rate structure for ULS usage does not comport with cost-causation and is anti-competitive.

## II. NON-COST BASED SWITCHED ACCESS CHARGES SHOULD BE ELIMINATED

Q. DOES AMERITECH PROPOSE TO ASSESS NON-COST BASED SWITCHED ACCESS CHARGES FOR INTRALATA AND INTERLATA CALLS THAT ORIGINATE OR

TERMINATE ON A CLEC'S ULS?

A. Yes. In his testimony, Ameritech witness Gebhardt discusses a large number of possible configurations of calls originating and terminating on a CLEC's ULS. In many of these possible configurations, Ameritech proposes to assess switched access charges that are not cost-based, such as the RIC, both to the CLEC leasing the ULS or to an IXC that delivers or receives traffic from the CLEC's ULS. As explained by Mr. Gebhardt on page 12 - 14 of his testimony, Ameritech proposes to assess the RIC and CCL even when the IXC has a direct trunked connection to the ULS and does not use Ameritech's switched access services.

Q. IS THE FCC CURRENTLY INVESTIGATING SWITCHED ACCESS CHARGES IN ORDER TO BRING THEM IN COMPLIANCE WITH THE PROVISIONS OF THE ACT OF 1996?

A. Yes. On December 1996, the FCC issued a Notice of Proposed Rulemaking on access charge reform ("NPRM"). In that proceeding the FCC seeks to reform the "system of interstate access charges to make it compatible with the competitive paradigm established by the 1996 Act and with state actions to open local networks to competition." (NPRM, Pp. 1.) Specifically, the FCC notes in the NPRM that "the Part 69 rules are fundamentally inconsistent with the competitive market conditions that the 1996 Act attempts to create."

(Pp. 6.)

Q. WOULD IT MAKE SENSE FOR THIS COMMISSION TO ALLOW AMERITECH TO ASSESS NON-COST BASED ACCESS CHARGES THAT ARE INCONSISTENT WITH SECTION 251(D) OF THE ACT AT THE VERY MOMENT THAT THE FCC WILL REFORM THOSE ACCESS CHARGES?

A. No. As noted, the pricing standard of the Act is clear: rates for all of the incumbent LEC's facilities should be set at TELRIC plus an appropriate level of forward looking joint and common costs ("TELRIC plus J&C"), which is the level to which those rates would converge if the market were in fact competitive. It makes no sense for this Commission, therefore, to approve the application of non-cost based access charges while the entire thrust of regulation, under the guidance of the Act of 96, is toward establishing rates that are TELRIC plus J&C. In fact, setting rates for all unbundled network elements at TELRIC plus J&C -- even where it concerns use of those facilities for originating an terminating long distance traffic -- would provide for a more natural phase-out of the inappropriate switched access regime.

Q. WOULD THE ULS SERVICE OFFERING BE SIMPLIFIED IF NON-COST BASED ACCESS CHARGES WERE ELIMINATED?

A. Yes. As Ameritech itself notes, it will no longer apply the non-cost based switched access rate elements after June 30, 1997, at the latest. (Gebhardt, p. 13.) Given this relatively short time period in which these rates would apply, the Commission should simply reject these rates from the outset. This would not only be appropriate in view of the pricing guidelines of section 252(d) of the Act of 1996, it would also greatly simplify Ameritech's proposed ULS charges.

As I will discuss below, there are a number of other problems associated with Ameritech's application of switched access charges. Specifically, I will discuss how Ameritech's proposed charges will in effect apply twice for the same facilities.

## III. AN ECONOMICALLY VIABLE ULS REQUIRES COMMON TRANSPORT

Q. WILL AMERITECH ALLOW CLECS THAT PURCHASE ULS TO USE AMERITECH'S COMMON TRANSPORT?

A. No. Mr. Gebhardt dedicates a good part of his testimony to carefully detailing why Ameritech believes that it is not required to offer common transport, even though Ameritech is well aware that common transport is essential to the economic viability of the ULS

offering. Instead of common transport, Ameritech will offer "dedicated transport" and "shared transport."

Q. PLEASE DESCRIBE AMERITECH'S "SHARED" TRANSPORT PROPOSAL?

A. Dedicated and shared transport are described on pages 6 through 10 of Mr. Gebhardt's testimony. Shared transport comes in two types. The first type is flat-rated and the second type is priced on a per minute-of-use basis.

It is important to note here that both types of shared transport are *point-to-point* arrangements. That is, Ameritech's new "shared transport" arrangements require that carriers specify before hand which locations will be served by the shared transport facilities and must purchase trunk ports in those locations. This restrictive type of arrangements contrast sharply with *common transport* that would allow carriers to terminate traffic throughout Ameritech's network without having to previously specify or designate the points of termination. Under true common transport, as it is used in switched access services, carriers hand-off their traffic at the tandem, and receive call terminating functionality throughout Ameritech's network on a *call-by-call* basis. This type of common transport would truly allow CLECs to share in Ameritech's economies of scale.

Q. WHY DOES AMERITECH REFUSE TO PROVIDE COMMON TRANSPORT TO CLECS THAT PURCHASE ULS?

A. I suspect that Ameritech's true motive for offering ULS without common transport is to make the service offering *less* economically viable. However, in his testimony, Mr. Gebhardt puts forth an analysis of the Act of 1996 to justify why Ameritech is not required to offer common transport. The essence of Mr. Gebhardt's argument is found on page 4, were he states:

> The fundamental premise of Section(c)(2)(v) is that local transport must be "unbundled from switching and other services." As a matter of engineering fact, common transport is not and cannot be unbundled from switching and still operate as common transport.

Q. DO YOU AGREE WIT MR. GEBHARDT'S REASONING?

A. No. First, M. Gebhardt's reading of the Act of 1996 appears unnecessarily narrow and at odds with the broader pro-competitive intent of the Act.

Second, Mr. Gebhardt appears to totally ignore the language in section 271(c)(2)(B)(v) of the Act, which requires that Bell operating companies, such as Ameritech, should offer:

> Local *transport* from the trunk side of the wireline local exchange carrier

switch unbundled from switching or other services.

While I am not an attorney (and neither is Mr. Gebhardt, to my knowledge), I read this language as mandating that Ameritech offer unbundled transport on its network. It does not restrict this transport to point-to-point connections.

Third, Section 251(c)(2)(A) also requires that the LEC provide interconnection "for the transmission and routing of telephone exchange service and exchange access." Again, I am not an attorney, but I would argue that requiring Ameritech to offer common transport is certainly not *contrary* to the provisions of the Act.

Q. HAS THE HEARING EXAMINER ALREADY DECIDED THAT AMERITECH SHOULD OFFER COMMON TRANSPORT?

A. Yes. In the H.E. Proposed Order, the Hearing Examiner finds: "The Commission is of the opinion that shared/common transport is a network element required to be unbundled to satisfy the requirements of Section 251(c)(3)."

Q. HAS ANOTHER COMMISSION IN AMERITECH'S SERVING AREA ALSO DECIDED THAT AMERITECH SHOULD OFFER COMMON TRANSPORT?

A. Yes. It is my understanding that the Wisconsin Public Service Commission during its February 20, 1997, meeting made an oral decision that Ameritech should offer common transport. The fact that Ameritech continues to deny CLECs common transport should alert the Commission to the strategic significance of common transport. Given that Ameritech has not presented any reasonable arguments for why they could not offer common transport, the Commission should order Ameritech in the most explicit of terms to offer common transport.

Q. AMERITECH WITNESS MR. DAN KOCHER TESTIFIES THAT IT IS IMPOSSIBLE FOR AMERITECH TO OFFER COMMON TRANSPORT ON AN UNBUNDLED BASIS. PLEASE COMMENT ON MR. KOCHER'S TESTIMONY.

A. On page 19, Mr. Kocher's argues that it is impossible to offer common transport on an unbundled basis, an opinion echoed by Mr. Gebhardt. The Commission should note that Mr. Kocher plays a game of semantics. Most importantly, Mr. Kocher does *not* argue that Ameritech is incapable of offering common transport in conjunction with ULS.

All Mr. Kocher argues is that common transport *itself* cannot be unbundled in its constituent components. The issue of unbundling common transport into its constituent components, however, is not the request before the Commission. The issue before the Commission is

whether Ameritech should offer common transport in conjunction *with* ULS in order to satisfy the competitive checklist under section 271 of the Act of 1996. The the Hearing Examiner has already decided this issue in favor of competition and the ratepayers of Illinois. Mr. Kocher's testimony adds nothing that should cause the Hearing Examiner to alter its findings here.

The fact of the matter is, Ameritech itself uses common transport now and it offers common transport as part of its switched access service. The company should be ordered to also offer it with ULS.

Q. IS THE DEVELOPMENT OF LOCAL EXCHANGE COMPETITION HAMPERED BY AMERITECH'S REFUSAL TO OFFER COMMON TRANSPORT

A. Yes, and for two reasons. First, Ameritech deprives CLECs the benefits of the economies of scale of its network. Obviously, CLECs will not generate sufficient traffic volumes to order point-to-point connections with their ULS service for all of the central offices of Ameritech from where or to which ULS calls may be placed. This means that, as a practical matter, CLECs will be forced to use Ameritech's dedicated and shared transport facilities at traffic volumes that will not be economically viable. This also means that for non-local traffic, CLECs are forced into paying Ameritech toll charges. That is, Ameritech has

carefully isolated the competitive use of the ULS so as to leave its toll revenues relatively unaffected (except for the wholesale discount.)

Second, because CLECs cannot use common transport, Ameritech is able to double charge for certain costs. Specifically, Ameritech will be able to double charge for trunk ports. I will discuss this in more detail below.

Q. DOES AMERITECH'S REFUSAL TO OFFER COMMON TRANSPORT WITH THE ULS OFFERING FRUSTRATE THE FCC'S OBJECTIVE TO HAVE CLECS SHARE IN THE ECONOMIES OF THE INCUMBENT LECS?

A. Yes. One of the FCC's considerations for promoting national rules was to ensure that new entrants would be able to share in the economies of the incumbent LECs' networks. In paragraph 11, the FCC noted:

> The incumbent LECs have economies of density, connectivity, and scale; traditionally, these have been viewed as creating a natural monopoly. As we pointed out in our NPRM, the local competition provisions of the Act require that these economies be shared with entrants.

As discussed above, by refusing to offer common transport, Ameritech prevents CLECs from sharing the economies inherent in Ameritech's transmission network.

## IV. AMERITECH SHOULD NOT BE ALLOWED TO CHARGE SWITCHED ACCESS TO IXCS THAT ORIGINATE OR TERMINATE CALLS ON A CLEC'S ULS

Q. DOES AMERITECH PROPOSE TO CHARGE THE IXC ORIGINATING SWITCHED ACCESS CHARGES FOR CALLS ORIGINATED ON THE ULS EVEN THOUGH THE IXC AND THE CLEC MAY HAVE ESTABLISHED A DIRECT CONNECTION FROM THE ULS TO THE IXC POP?

A. Yes. On pages 11 through 14, Mr. Gebhardt discusses a call originating on CLEC A's ULS that is handed-off to an IXC by means of a direct connection to the IXC POP. That is, the IXC uses no Ameritech facilities -- other than the ULS for which Ameritech is fully compensated by the CLEC -- and is not a customer of Ameritech. Yet, *even though the IXC is not a customer of Ameritech in this situation*, Ameritech proposes to charge the IXC switched access charges such as the RIC and CCL (the latter for interstate calls only.)

Q. DOES THIS DEPRIVE THE CLEC OF REVENUES NEEDED TO MAKE THE ULS ECONOMICALLY VIABLE?

A. Yes. If the ULS is to be economically viable, then CLECs ought to be allowed to operate the ULS in a manner that is similar to the way that Ameritech operates. That is, CLECs need to be able to charge both originating and terminating access. This means that if the CLEC and the IXC have established direct connections from the ULS to the POP then the CLEC

should have the exclusive right to any access charges that apply. Moreover, the IXC should not be assessed any access charges by Ameritech because *the IXC simply is no longer Ameritech's customer*. The IXC is now served by the CLEC.

Q. DOES AMERITECH ALSO PROPOSE TO CHARGE THE IXCS FULL SWITCHED ACCESS IF THEY ORIGINATE CALLS ON THE ULS LEASED BY A CLEC?

A. Yes. On pages 11 and 12 of his testimony, Mr. Gebhardt discusses the charges Ameritech proposes to assess if long distance calls originate on the ULS of the CLEC but are transported to the IXC by means of Ameritech facilities. Mr. Gebhardt explains how, in this situation, Ameritech will ignore the fact that the ULS is leased by the CLEC and Ameritech proposes to charge the IXC full switched access charges: local switching, RIC and CCL (the latter for interstate only.)

Q. DOES AMERITECH ALSO CHARGE THE IXC TERMINATING LOCAL SWITCHING FOR CALLS TERMINATED ON THE ULS WHEN THE IXC AND THE CLEC MAY HAVE ESTABLISHED A DIRECT CONNECTION FROM THE ULS TO THE IXC POP?

A. Apparently, no. On page 15 of his testimony, Mr. Gebhardt explains that in this situation, Ameritech will only charge the CLEC ULS usage -- no charges appear to apply to the IXC. This is correct in the sense that since the IXC is not a customer of Ameritech, Ameritech

refrains from assessing any charges on the IXC. I recommend that the Commission order Ameritech to make the same arrangement for originating calls.

Q. DOES AMERITECH EXTEND THE SAME LOGIC TO THE SITUATION WHERE CALLS TERMINATE ON THE ULS BY MEANS OF AMERITECH'S TRANSPORT SERVICES?

A. No. When the CLEC and the IXC do not have a direct connection, but use Ameritech's facilities to transport the call to the ULS, then Ameritech again proposes to assess its *full switched access charges*, including local switching, RIC and CCL (the latter for interstate calls only.) This situation is discussed on page 17 through 19 of Mr. Gebhardt's testimony. As with the originating side of the call, Ameritech ignores totally that the ULS is leased by the CLEC. This is wrong. Since the CLEC leases the ULS -- and fully compensates Ameritech for this function -- Ameritech should not be allowed to asses local switching on the IXCs.

Interestingly, Ameritech's proposal here stands in contrast with the situation discussed previously, where the IXC and the CLEC do have a direct connection. For terminating calls where a direct connection exists, Ameritech proposes -- correctly -- *not* to assess *any* charges on the IXC because Ameritech is already being compensated for the ULS by the CLEC and

no other facilities are being used by the IXC. This logic should be extended to situations where the IXC uses only limited facilities of Ameritech. Here too, no local switching should be assessed on the IXC, and for those Ameritech facilities used by the IXC only cost based rates should apply.

Q. SHOULD AMERITECH PAY THE CLEC WHEN TOLL CALLS FROM AMERITECH CUSTOMERS TERMINATE ON THE ULS?

A. Yes. It is important to note here that Ameritech fails to indicate that the CLEC should be allowed to charge Ameritech terminating switched access for incoming toll calls that terminate on its ULS. The ULS consists of a configuration of a line port, a trunk port and local switching (among other components). The CLEC leases these facilities, and once leased, should be entitled to all the revenues that it can generate when the ULS is used by other carriers, regardless of whether it is used by CLECs, IXCs, *or Ameritech*. The situation here is analogous to one where the CLEC leases dedicated transport facilities. If Ameritech or other carriers want to share those leased facilities, they should pay.

Q. SHOULD AMERITECH PAY THE CLEC WHEN LOCAL CALLS TERMINATE ON THE ULS?

A. Yes. This is another scenario that Ameritech fails to discuss. For the same reasons as discussed above, the CLEC should be compensated whenever calls terminate on the ULS it

leases. There is no reason why Ameritech should not pay local termination rates when its customers call a CLEC customer served on the CLEC's network just because it happens to involve the ULS.

## V. AMERITECH'S REFUSAL TO OFFER COMMON TRANSPORT RESULTS IN INEFFICIENT USE OF TRUNK PORT FACILITIES AND DOUBLE RECOVERY OF TRUNK PORTS

Q. DOES AMERITECH'S REFUSAL TO OFFER COMMON TRANSPORT RESULT IN INEFFICIENT USE OF TRUNK PORTS?

A. Yes. For example, in a situation where the CLEC orders Ameritech's "shared" transport arrangement, the CLEC must designate -- and Ameritech must reserve -- a trunk port on a switch other than the switch from which it leases the ULS. This results in lower utilization of the trunk ports for a number of reasons.

First, to the extent that Ameritech is artificially creating a situation in which CLECs must always order facilities in discrete capacities, use of those facilities is always less than full capacity utilization achieved under common transport.

Second, when a call originates on the ULS of CLEC A and terminates on the ULS of CLEC B, *the trunk port of CLEC B is not used for terminating the call.* Under Ameritech's

proposal for "shared" transport, the call will terminate on the port designated by CLEC A as part of its "shared" transport: the call will then be switched to the *line* port of CLEC B's ULS. This means that CLEC B pays for a trunk port but is denied the ability to receive all calls on this trunk port. As a result, there is under-utilization of this trunk port.

Third, the same is true when Ameritech imposes a switched access arrangement on IXCs that terminate calls on the ULS of a CLEC. Instead of allowing the IXCs to terminate on the trunk port of the CLEC's ULS, Ameritech routes the calls through FG-D ports. This situation also results in double recovery of the trunk port, as discussed presently.

Q. DOES THIS SITUATION RESULT IN DOUBLE RECOVERY OF TRUNK PORTS?

A. Yes. As discussed above, there are many instance where Ameritech proposes to charge switched access when calls originate or terminate on a CLEC's ULS. To see that Ameritech double recovers the cost of trunk ports consider the following. Switched access charges recover the cost of trunk ports. The ULS arrangement also recovers the cost of a trunk port -- in fact, it *fully* recovers the cost of one trunk port. Therefore, when a call originates on a CLEC's ULS and Ameritech assess switched access charges, Ameritech is double recovering trunk ports.

As noted above, Ameritech's proposal to assess switched access charges for a variety of calls terminating and originating on the CLEC's ULS also deprives the CLEC of a source of revenue to recover its cost of the ULS.

## VI. AMERITECH'S PROPOSED RATE STRUCTURE FOR ULS IS WRONG AND CURRENTLY UNDER INVESTIGATION IN DOCKET NO. 96-0486/0569

Q. IS AMERITECH'S PROPOSED RATE STRUCTURE FOR ULS APPROPRIATE?

A. No. Ameritech has structured the unbundled local switching element in three components, line port, usage, and trunk ports. That is, port charges are flat-rated, while usage charges are assessed on a per minute-of-use basis. This rate structure, as well, the rate levels, are currently under investigation in Docket No. 96-0486/0569. While the importance of appropriate rate levels is apparent, the Commission should recognize that it is equally important for the rate *structure* to also correspond to the way costs are incurred.

As is evident from the examination of Ameritech's costs in Docket No. 96-0486/0569, Ameritech is proposing here, and in Docket No. 96-0486/0569, to recover on a usage sensitive basis costs that are not usage sensitive. Not only does this fly in the face of cost causation, which should guide proper costing and pricing, it also indicates how inappropriate it is for Ameritech to impose its switched access charges on calls terminating and originating on the CLECs ULS. That is, if the rate structure for ULS would appropriately reflect that

most costs – in fact, almost all costs -- are non-usage sensitive, then it would be immediately apparent that Ameritech should *never* be allowed to assess per-minute-of-use local switching (under its switched access tariff) on IXCs that originate or terminate calls on a CLEC's ULS when the CLEC has already fully compensate Ameritech for its ULS costs.

Q. DOES THE EVIDENCE PRESENTED IN DOCKET NO. 96-0486/0569 INDICATE THAT THE LOCAL SWITCHING ELEMENT SHOULD BE OFFERED ON A FLAT-RATED BASIS?

A. Yes. It is clear from the evidence presented in the LRSIC/TELRIC proceeding, Docket No. 96-0486/0569, that Ameritech is proposing to recover costs that are in fact not usage sensitive on a usage sensitive basis. This is in large part due to the BellCore switching model, SCIS, used by Ameritech. SCIS was explicitly developed by BellCore to allow the RBOCs to recover the costs of switching on a per minute-of-use basis. The per minute-of-use recovery mechanism was convenient because most customers were assessed per minute-of-use charges. Further, it also allowed RBOCs to earn more revenues from high volume customers, such as large business customers and IXCs.

Contrary to past costing and pricing practices, however, the costs of the switch are far less usage sensitive than sensitive to the number of line ports and trunk ports served of the

switch. As any switch engineer knows -- *and an Ameritech cost witness has testified* -- the switch *exhausts* on the line side and not on usage. That is, switch expansion -- and, thus, switch cost -- are driven by line ports. This means that an appropriate cost and pricing structure should reflect that line ports drive the cost of the switch. It also means that Ameritech proposal to charge per minute-of-use usage charges is inappropriate.

Q. WOULD A FLAT-RATED ULS GREATLY SIMPLIFY THE VARIOUS COMPENSATION ARRANGEMENTS FOR THE ULS?

A. Yes. If Ameritech is fully compensated for the ULS on a flat-rated basis, then there is no need for any additional usage charges related to the switch when IXCs originate and terminate calls to the ULS. This immediately would eliminate the current debate over when and how Ameritech should asses its ULS usage charges versus its own switched access charges. As always, regulatory policies are greatly simplified if prices are set at costs that reflect cost-causation.

Q. WOULD A FLAT-RATED ULS OFFER GREATER PROTECTION AGAINST PRICE-SQUEEZES?

A. Yes. First, a price squeeze is generally defined as a situation in which a monopolist raises

the wholesale price to dependent competitors in order to squeeze the *margin* between retail and wholesale prices so that the dependent competitor can no longer compete profitably.[1]

The relevant comparison here is between the ULS usage charges and Ameritech's retail rates for local calling. Under Ameritech's proposed charges, Ameritech's own retail rates for local calling with compounded off-peak and volume discounts are sometimes equal to or less than the ULS usage charges. For those circumstances where this is true, it is a text-book case of a price squeeze.

On the other hand, if the ULS were priced on a *flat-rated* basis, then the CLEC in effect faces the same cost structure as Ameritech -- i.e., marginal costs for usage that are almost zero since switch costs are line driven. This means that the CLEC, in this regard, can now compete head-on with Ameritech. That is, as long as the CLEC is at least as efficient as Ameritech in all other regards, it can now match discount for discount, without being handicapped by an artificially high marginal costs (the ULS usage charges). A flat-rated ULS at TELRIC plus forward-looking joint and common costs, therefore, not only protects competitors better against price-squeezes it also creates more competition to the benefit of

[1] Joskow defines a price squeeze as "the situation in which the monopoly input supplier charges a price for the input to its downstream competitors that is so high they cannot profitably sell the downstream product in competition with the integrated firm." Quoted in J. Tirole, *The Theory of Industrial Organization*, MIT Press, 1988, p. 194.